

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL
PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMHLABUYALINGANA
MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umhlabuyalingana Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards on Generally Recognised Accounting Practice (SA Standards on GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Umhlabuyalingana Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umhlabuyalingana Municipality as at 30 June 2010, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Fruitless and wasteful expenditure

10. As disclosed in note 21 to the financial statements, fruitless and wasteful expenditure to the amount of R5,461 million was incurred as a result of the following:
 - R231 727 was paid in respect of penalties and interest for the late submission of PAYE and SDL returns
 - Costs of R180 000 was incurred as a result of the SCM process not being followed
 - Costs of R243 891 was incurred as a result of payment for internal audit reports and work produced after year-end
 - Costs of R46 991 was incurred as a result of an exhibition stand paid for but not used
 - Expenditure of R518 470 was incurred as a result of a payment made to an employee for unlawful dismissal as well as salary payments while the employee was on suspension, which was not warranted
 - R19 914 was paid in interest on an overdraft which was not approved by council
 - Expenditure of R417 396 was incurred on S&T payments contrary to S&T policy
 - R24 468 was paid in legal fees for breach of a municipal contract
 - R47 736 was paid for social facilitation without the SCM process being followed
 - R199 100 was paid for a consultancy service where the SCM process was not followed
 - R45 000 was paid for printing without the SCM process being followed
 - R2,681 million was paid for construction without the SCM process being followed
 - R805 000 was paid for construction without the SCM process being followed.

Irregular expenditure

11. As disclosed in note 22 to the financial statements, irregular expenditure to the amount of R2 828 702 was incurred as a result of the following:
- Costs of R2,204 million were incurred without following the Supply Chain Management regulation (SCM) process in obtaining quotes, contrary to regulation 16 of the SCM, and furthermore, there was no proof that the services had been rendered
 - R302 329 was paid to suppliers who had been appointed in contrary to regulation 20 of the SCM.
 - R322 344 was paid to a supplier, a member of which was an employee of the state which is contrary to regulation 44 of the SCM.

Additional matters

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations -MFMA, DoRA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal Planning and Performance Management Regulations (Regulations – GNR/GN) and financial management (internal control).

Predetermined objectives

15. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements

16. Inadequate content of the integrated development plan (IDP)

- The IDP of the Umhlabuyalingana Municipality did not include key performance indicators and performance targets determined in terms of the performance management system, as required by section 26(i) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001 (MPPMR) .
- The Service Development and Budget Implementation Plan (SDBIP), annual budget and performance plans of the section 57 employees were not aligned to the IDP, as required by section 25 of the MSA.

17. No mid-year budget and performance assessment

The accounting officer of the Umhlabuyalingana Municipality did not assess the performance of the municipality during the first half of the financial year as required by section 72(1)(a) of the MFMA.

Usefulness of information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

18. Reported information not consistent

- Information contained in the draft annual performance report was inconsistent with information contained in the SDBIP.
- Information contained in the draft annual performance report is inaccurate and incomplete as the information did not correspond to information contained in the progress reports used to draw up the performance information report.

Reliability of information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual performance occurred and does it pertain to the entity, i.e. can the reported information be traced back to source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

19. No supporting documentation

Sufficient appropriate audit evidence in relation to information included in the draft annual performance report could not be obtained. There was also no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of reported information.

Compliance with laws and regulations

Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)

20. The audit committee was not properly established

The municipality did not have an audit committee for the financial year as required by section 166 of the MFMA.

21. The mayor did not adhere to his legislative responsibilities

The mayor did not ensure that the council approved the municipality's service delivery and budget implementation plan within 28 days after the approval of the annual budget, as required by section 53(1)(c)(ii) of the MFMA.

22. The financial statements were not prepared in accordance with applicable legislation

Contrary to the requirements of section 65(2)(c) of the MFMA, the municipality did not have or did not maintain effective, efficient and transparent systems of internal control, as required by legislation for payment vouchers and invoices.

Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA)

23. Supply chain management legislative requirements are not adhered to

Annual declarations of interest were not made by the staff, as required by schedule 2, section 5A of the MSA.

Supply Chain Management Regulations (SCM)

24. Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

- Payments totalling R322 344 were made to a supplier with a member in the employ of the state, contrary to regulation 44 of the SCM.
- Payments totalling R2,204 million without obtaining the necessary quotes, contrary to regulation 16 of the SCM.
- Payments totalling R302 329 made to suppliers who were awarded contracts / appointed contrary to regulation 20 of the SCM.

INTERNAL CONTROL

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives, as well as compliance with the MFMA, DoRA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

26. The matters reported below are limited to the deficiencies identified during the audit.

Leadership

27. The municipal manager was dismissed during the financial year under review.

28. Management has not exercised oversight responsibility over financial reporting and internal control in that actions were not taken to address risks relating to the achievement of complete and accurate financial reporting and reporting on predetermined objectives.
29. Actions have not been taken to mitigate risks relating to predetermined objectives, resulting in non-compliance with regulatory and reporting requirements.

Financial and performance management

30. The financial statements were subject to changes identified during the audit.
31. An inadequate filing system was in operation as supporting documentation requested was not readily available for auditing purposes.

Governance

32. No audit committee in place for the year under review.
33. Internal audit was not effective as reports were received after year-end and control measures had not improved during the financial year under review due to the timing of the reports.

OTHER REPORTS

Investigations

34. An internal investigation is presently being conducted by the appointed Administrator in respect of alleged misadministration of the municipality by the former municipal manager and former chief financial officer. The report had not been finalised at date of this report.

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence